



# King County Administrative Policies and Procedures

## General Administrative Policies & Procedures

Title

Accounts Payable Payments Processing

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Office of Financial Management, Accounting Services

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Approved

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### 1.0 SUBJECT TITLE: Accounts Payable Payments Processing

1.1 EFFECTIVE DATE: March 1, 1990

1.2 TYPE OF ACTION: New

1.3 KEY WORDS: (1) Accounts Payable (2) Disbursements (3) Payables

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2.0 PURPOSE:

- 2.1 To establish uniform procedures for processing accounts payable payments for King County Government.
- 2.2 Background - Office of Financial Management, Accounting Services, performs the auditor functions prescribed by State law and operates the centralized accounts payable and warrants reconciliation systems to facilitate the issuance and redemption of County payment warrants.

3.0 ORGANIZATIONS AFFECTED: All King County agencies who process payments.

4.0 REFERENCES:

- 4.1 State Const. Art. VIII, Sec. 7 - County credit not to be loaned.
- 4.2 State Const. Art. VIII, Sec. 14 - Prvt. use of pub. funds prohibited.
- 4.3 RCW 4.16 - Statute of Limitations.
- 4.4 RCW 7.12.020 - Attachment (writ) on debt.
- 4.5 RCW 18.27.040 - Surety bond required of contractors.
- 4.6 RCW 35.21.085 & 36.33.060 - Claim funds.
- 4.7 RCW 36.32.240 - Competitive bids & deposits.
- 4.8 RCW 39.08 - Contract performance bond.
- 4.9 RCW 39.72 - Replacement of lost warrants.
- 4.10 RCW 39.76 - Interest penalty on late payments.
- 4.11 RCW 42.20.060 - Falsely auditing and paying claims; fraud.
- 4.12 RCW 42.21 - Code of ethics for public officials.
- 4.13 RCW 42.24 - Claims for expenses.
- 4.14 RCW 60.28.010 - Construction contract retainage/lien claims.
- 4.15 RCW 65.16.030 - Newspaper affidavit of publication required.
- 4.16 RCW 82 - Excise Tax Laws.
- 4.17 WAC 458-20 - Excise Tax Rules.
- 4.18 IRS publications 378 and 510.
- 4.19 IRS Notice 88-13.
- 4.20 IRS Claim Form 843 and instructions.
- 4.21 IRS Circular E.
- 4.22 Federal Register Part 48 - Tax on sale or removal of gasoline.
- 4.23 King County Executive Order No. CON7-2, Exemptions to PO Requirements.

5.0 DEFINITIONS:

- 5.1 "A/P" means Accounts Payable.
- 5.2 "OFM/AS" means Office of Financial Management, Accounting Services.
- 5.3 "PO" means Purchase Order.
- 5.4 "Payment Request" refers to any one of the forms as described in Section 6.2 and processed in accordance with this policy.

- 5.5 "Purchasing Agency" means King County Executive Administration, Office of Purchasing.
- 5.6 "ROC" means Record of Contract.
- 5.7 "TC" means Transaction Code.
- 5.8 "Vendor" means a supplier, contractor, consultant or any individual supplying goods or services to the County, other than employment services.
- 5.9 "Voucher" means a payment request document.

## 6.0 POLICIES

- 6.1 METHODS OF PAYMENT: Payments shall be processed in accordance with the methods described below.
  - 6.1.1 Payments to Vendors and External Agencies: Payments to vendors and external organizations shall be made by A/P warrant except for:
    - ° Wire Transfers or Authorized Clearing Hours (ACH) Transfers may be used for investments, bonds and tax anticipation notes (TANS) transactions with financial institutions; payments to fiscal agents to cover coupons paid; tax distributions to some cities; County payroll PERS payments to the State; payroll deduction remittances to the King County Credit Union; County insurance program remittances; County bank account deposit transfers; and other special contractual requirements.
    - ° OFM Checks may be used for investments, bond and coupon redemption; and warrant redemption.
  - 6.1.2 Personal Service Payments - A/P versus Payroll: Disbursements for personal services from a service provider qualifying as an "independent contractor" shall be made through Accounts Payable. Personal services rendered in an "employer/employee" relationship shall be paid through Payroll.

The criteria provided below shall be applied. For further clarification, see Appendix 9.1.

    - 6.1.2.1 Payments to Independent Contractors via A/P shall be determined by the following criteria, based on IRS guidelines:
      - ° worker is free from County control over method of performance of contracted service;

- the contracted service is performed outside the regular course or place of County business;
- worker is customarily in an independent business; and
- the contractor must have both the Washington State B&O Tax Number (format: (C123-456-789) and Federal Taxpayer Identification Number: either a Federal employer identification number (00-0000000) or, for individuals, a social security number (000-00-0000).

6.1.2.2 Payments of an Employment Relationship via Payroll shall be determined by the following criteria, based on IRS guidelines:

- County has legal right to control both the method and result of services;
- County has the right to discharge the individual; and
- relevant, but not determinative, criteria involve:
  - whether the County furnishes the tools or materials to perform the work,
  - whether the work is performed on County premises,
  - whether the County controls the work hours,
  - the duration and method of pay,
  - the ability of the service provider to delegate or subcontract the performance of services, and
  - nature of instructions provided by the County in performing the services.

6.1.2.3 The following special classes of employment and types of payment may be paid via A/P by virtue of exclusion from payroll taxes per IRS Circular E:

- Sickness/injury payments under Workers Compensation law.
- Fees of public officials (e.g. election official fees).
- Certain members of religious orders.
- Deceased worker wages paid to beneficiary after the year of worker's death.
- Service not in the course of the County's business or normally done by its employees (e.g. speaker, instructor, model, etc.) and payments to the person total:

- under \$100 in the year, and
- under \$50 in the quarter and person works on less than 24 different days in the quarter or the preceding quarter.

6.1.3 A/P Payment Assignments to Financial Intermediaries: County agencies shall not sign any document agreeing to fulfill payment assignment requests. All requests to have County payments assigned (or redirected) to a third party (such as a fiscal agent, factor or bank) shall be directed to OFM/AS, Disbursements Supervisor. The request shall include a copy of the signed agreement between the vendor and the third party recipient. If a PO or ROC is involved and the assignment is to apply from the outset, then the assignment should be cited in the initial agreement document.

6.1.4 County Interfund or Inter-Agency Payments: Internal payments between County agencies shall be accomplished via general journal entry, interfund transfer voucher or work authorization, whichever is appropriate. (Consult with OFM/AS, Financial Accounting Section.)

If there is some over-riding reason that an A/P warrant is needed to complete the transaction, attach an explanation to the voucher.

Transfers between different County checking accounts are made via either check or wire transfer.

6.2 STANDARD A/P FORMS: The standard forms described in the Accounts Payable Procedures Manual shall be used to request Accounts Payable payments.

6.3 A/P VOUCHER PAYMENT REQUESTS: County agencies shall prepare A/P payment requests in the manner described below.

6.3.1 Original Invoice Required: The vendor's original invoice must accompany the payment request, except for:

6.3.1.1 The payment obligation and due date exist in a previous agreement (such as a rental agreement), in which case evidence to this effect must accompany the payment request.

6.3.1.2 Pre-payments which are common trade practice, such as for postage, periodicals and books.

6.3.1.3 Cash purchase necessary for a retail store transaction, in which case a complete description of the transaction and a commitment to return a store receipt must accompany the payment request.

- 6.3.1.4 The original invoice cannot be located and verification has been made that the payment has not yet occurred. In this case, enter on the invoice copy "use as original" along with the initials or name of the person so authorizing.
- 6.3.1.5 In the case of an expense reimbursement claim, instead of an invoice, an original receipt is required which evidences that payment was tendered. A copy of a written, unredeemed check is insufficient.
- 6.3.2 PO or ROC Requirements: To process a payment, a PO or ROC must have been issued in accordance with the Purchasing Agency policies and procedures unless exempted in accordance with Executive Order CON 7-2 - Exemptions to Purchase Order Requirements.
  - 6.3.2.1 If the invoice or payment request is larger than the PO, specific approval must be obtained from the Purchasing Agency, with the following exceptions:
    - freight charges, if PO freight-on-board is other than King County destination;
    - 10% quantity variance on printing orders (as industry standard);
    - late payment charges;
    - change in tax; or
    - an explanation (other than as a result of a unit price change) is provided for an amount of up to \$100 over the PO.
  - 6.3.2.2 If a discrepancy is not resolved by the above exceptions, the Purchasing Agency must approve it as evidenced by: (a) either an encumbrance increase or a copy of a PO change; or (b) the statement "PO ok to pay" on the payment request or a copy of the PO with the change noted, signed off by a Purchasing Agency buyer.
- 6.3.3 Other Payment Support: The payment request must include a meaningful description of the transaction, either on the invoice, PO, or an accompanying document. Expenses involving personal activity such as travel, retreats or meals require a supporting agenda or description evidencing the County-business nature of the transaction and identification of participants.
  - 6.3.3.1 Contributions: Contributions shall be charged to a 54XXX expense account and approved by the Department Director or higher authority, unless supported by a contractual commitment. Donations or gifts are generally not constitutionally permissible.

- 6.3.3.2 Travel Related Payments: Travel related payments shall conform to prevailing County ordinances and any supplementary rules which are issued as administrative policies specific to a given branch of King County.

A photocopy of the approved Travel Authorization Form must accompany requests to pay for airline tickets, lodging or registration relating to out-of-state travel.

- 6.3.3.3 Newspaper Notice/Ads: Payment requests for legal and other official notices required by State law shall be accompanied by an "affidavit of publication" per RCW 65.16.030. For other advertisements, a copy of the advertisement (not the entire newspaper) or a description of the advertisement shall accompany the payment request.

- 6.3.4 Accuracy of Invoice: Accuracy of the invoice pricing, extensions, sales/use tax and total amounts shall be verified prior to signing of the voucher Payment Certification, as part of the commitment that it is a "just obligation".

- 6.3.4.1 Sales Tax (out-of-state vendors): On invoices from out-of-state vendors, sales tax shall not be adjusted or added by County agencies. OFM/AS will apply the appropriate "use tax" in lieu of the sales tax, if applicable.

- 6.3.4.2 Sales Tax (in-state vendors): Sales tax problems on invoices from in-state vendors shall be resolved with the vendor by County agencies. (In-state vendors, and some out-of-state vendors, are responsible to the State for collecting the appropriate sales tax.)

- 6.3.5 Timely Payments Required: All payments shall be processed in a timely manner. Payment requests shall be initiated when the obligation to pay first occurs (e.g., after goods/services are received and accepted as fulfilling the purchase terms).

The philosophy of timely payments begins with committing the County to a financial obligation (e.g., a purchase) which should be made only: (1) by an authorized person and (2) if authorized funds exist. By the time payment becomes due, there should be no problems with either a commitment authority (e.g. PO) or a funding source problem, which would cause the County to fail to meet its payment obligation.

- 6.3.5.1 County agencies shall process payments within any discount period provided for by the vendor.

- 6.3.5.2 All obligations shall be paid within 30 days after the invoice date, if not subject to other terms.

- 6.3.5.3 Payments shall not be postponed as a result of budget insufficiency or encumbrance problems, as distinguished from transaction authorization of the Purchasing Agency when required. If the vendor has fulfilled the purchase terms and the "Payment Certification" statement on the payment request is valid, then a legal obligation to pay exists.
- 6.3.6 Service Charge/Late Payment Penalties: Legitimate obligations to pay service charges or late payment penalties, under terms of the purchase agreement or prevailing law (See RCW 39.76) shall be charged to the same ARMS Code the purchase will be recorded against or, as an exception, against Account No. 53890, Misc. Services and Charges.
- 6.4 CONTENTIONS WITH VENDOR: Whenever a delivery of goods or services is unsatisfactory and jeopardizes making payment by the due date, County agencies shall notify the vendor in writing of the defect.
- 6.5 INVOICE SPECIFICATIONS FOR VENDORS: Vendors shall be asked to:
- ° Bill and mail invoices directly to the County agency receiving the order, and
  - ° Identify on the invoice the PO or ROC number, if applicable.
- 6.6 CHANGES TO ARMS CODING AFTER PAYMENT: To change the ARMS expenditure coding after an invoice has been paid, County agencies shall provide a written request to OFM/AS, Accounts Payable Unit, identifying the payee name, payment date, voucher number, amount and both (from, to) ARMS Coding Blocks.
- County agencies making frequent changes should instead submit them on TC 51 - Expenditure Adjustment forms which are available from OFM/AS.
- 6.7 A/P VOUCHER RECORDS RETENTION: OFM/AS shall retain all payment requests (e.g., vouchers) and supporting documentation provided for the period required by the State Office of Archives (presently six years). County agencies should not unnecessarily retain duplicate copies of these records in their offices.
- 6.8 EDP REPORTS OF A/P PAYMENTS: OFM/AS shall retain a chronological record of year-to-date payments sorted both by vendor name and by PO number. See the Accounts Payable Procedures Manual for other related reports.
- 6.9 A/P WARRANT DISTRIBUTION/REPLACEMENT: A/P warrants shall be administered by County agencies in the manner described below.
- 6.9.1 Undelivered A/P Warrants: A/P warrants not mailed directly to the vendor by OFM/AS and instead routed to County agencies shall be securely stored pending their mailing or delivery. They shall be returned to OFM/AS, Accounts Payable Unit, if they remain undelivered to the vendor after one week.



- 6.9.2 Replacement of a Lost or Destroyed Warrant: Upon initial notice that a warrant appears to be lost, notify the OFM/AS, Accounts Payable Unit, so that a "stop" status may be established until it either is received by the authorized payee or is replaced with a duplicate.

If a reasonable delivery time has elapsed or if there is other evidence of a lost or destroyed status, prepare and forward to the payee an "Affidavit For Issuance of Duplicate Warrant", or request the OFM/AS, A/P Unit to do the same.

County agencies shall not submit a "new" payment request voucher asking that a second warrant be issued since this could result in a duplicate payment. (RCW 43.08.066)

- 6.9.3 Claim for a Canceled Warrant: Requests for the replacement of canceled warrants or claims involving the absence of the document itself, shall be referred to the claim procedure of the Risk Management Office. (Normally, if the warrant issue date is more than six years prior to the date of claim filing, the statute of limitations RCW 4.16.040 provides that the County liability has expired and the claim would be invalid.)

- 6.10 A/P AUTHORIZED SIGNATURE LIST: Department directors/agency managers are responsible for: (1) timely submitting to the OFM/AS, Accounts Payable Unit, updates to their agency's Authorized Signature List so as to keep it in a current status; and (2) only submitting A/P vouchers which bear the "Certification for Payment" signatures of persons so authorized. RCW 42.24.080 cites the responsibility of the "auditing officer" which is delegated by the County Executive via Executive Order and subsequently via the Authorized Signature List form.

## 7.0 PROCEDURES:

### Action By:

### Action:

Agency

- 7.1 Receive an invoice or other evidence of indebtedness requiring payment.
- 7.2 Determine the appropriate method of payment by referring to Section 6.1, Methods of Payment. If indicated method is via OFM/AS, Accounts Payable Unit, then continue adherence to this policy and procedure.
- 7.3 Determine the appropriate form to request payment, per Section 6.2, Standard A/P Forms.
- 7.4 Prepare and submit payment request form, with documentation, per Section 6.3, A/P Voucher Payment Requests.

Agency & OFM/AS

- 7.5 Adhere to the various policies cited in Sections 6.4 thru 6.10, and to the Accounts Payable Procedures Manual and supplemental instructions issued by OFM/AS.

## 8.0 RESPONSIBILITIES:

- 8.1 All King County agencies are responsible for adhering to this policy/procedure.
- 8.2 OFM/AS, Accounts Payable Unit, is responsible for providing central payment processing support to all County agencies.
- 8.3 Signers of the "Payment Certification" perjury statement are fulfilling the role of auditing officer for the County and are responsible for: (1) the accuracy and propriety of the requested payment; (2) the adequacy of budget and cash funds to support the purchase and payment; and (3) all provisions of the certification perjury statement affirmed by signature.

## 9.0 APPENDIX:

- 9.1 August 11, 1986, County Executive Letter, regarding Employment Versus Independent Contractor Service Agreements.

(1) Right to Control

This is clearly deemed to be the most important factor by the Courts and IRS. Generally, if the person for whom services are to be performed (employer) has the right to control and direct both the result to be accomplished and when, how, and where such result is to be accomplished, the relationship is one of employer-employee. It is not necessary that actual control be asserted but only that the employer could require such compliance. The right to discharge, while often listed as a separate and distinct factor, is often considered to indicate the person possessing that right is an employer. Other factors deemed important are the furnishing of tools and a place to work to the individual. Conversely, if an individual is subject to control as to the result to be accomplished but not as to the methods and means to accomplish the result, the individual is an independent contractor.

(2) Independent Trades and Professions

Generally, those who provide services to the public are not employees when providing such services. Examples include physicians, dentists, lawyers, public stenographers and auctioneers. The IRS considers, along with provision of services to the general public, whether full time is required by the employer (an indication of control and therefore employee status) and whether the individual is working for more than one firm at a time (indicating independence).

(3) Instructions

This is another factor considered by the IRS as indicating control. These can be either oral or written (manuals or procedures). As noted above, it is the right to require compliance rather than actual compliance which is critical.

(4) Integration

This rather vague factor looks at whether the individual's services are merged into the regular course of the employer's general business. Courts have considered whether a worker can be viewed as an integral part of the employer's business. This test has the potential to render many relationships as employer-employee and has prompted the Court of Claims to declare that while relevant, it is not determinative.

(5) Right to Delegate

If services must be rendered personally, the IRS presumes that the employer is interested in the methods as well as the result. The IRS further points out that an agreement to the effect that work cannot be delegated indicates an employee relation.

(6) Tools and Place of Work

The greater the value of the instruments supplied by the employer, the greater the importance of this as a factor. The reason for such importance is because the greater the value of the instrumentality the more likely the worker will be expected to follow instructions in the use of the instrument. Also relevant is where the work is performed, although it is not determinative.

(7) Industry Custom (long-standing practice in the business or industry may indicate an employer-employee relationship or an independent contractor service agreement).

(8) Other Factors

- (a) Duration of employment and method of payment (hourly versus lump-sum for job; continuous versus job completion);
- (b) Hours of work (specified may indicate control);
- (c) Sequence and Reports (sequence of performance of job indicates control and regular reporting may indicate same);
- (d) Training (indicates employer desires work to be performed in certain manner and therefore is in control);
- (e) Permanency of the relationship;
- (f) Alleged contractor's opportunities for profit and loss; and
- (g) Amount of initiative, judgement or foresight in open market competition with others required for the success of the claimed independent enterprise.

PAPERWORK RELATED TO PURCHASED PERSONAL SERVICES

(1) Independent Contractor

The Record of Contract form serves as a substitute for the Purchase Order form where a signed contract (e.g. Professional/Technical Consultant Services Contract) has already established a legally binding agreement. Alternatively, a Purchase Order serves the purpose of both establishing a binding agreement and facilitating administrative record functions.

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Tax numbers required of independent contractors are as follows:

- (a) Washington State B&O tax number (format: C123-456-789)
- (b) Federal taxpayer identification number - either a Federal employer identification number (00-0000000), or for individuals, a social security number (000-00-0000).

(2) Employer-Employee Relationship

When a person is hired as an employee (full-time, extra-help or "acting"), this is an employment agreement unrelated to the Purchasing Office function. If terms of employment are to be documented beyond the position announcement, it can be by memorandum or formalized agreement. This can be especially important for extra-help employment where no official notice of working conditions is published from the Personnel Office. Because such employment agreements are subject to payroll tax administration, they should not cite a "payment" or "net check" amount, but rather the rate of pay (e.g. per hour). This documentation has no relevance to the "Purchase Order/Record of Contract" form process.

This information will be reiterated in a forthcoming update to the County's Financial Policies issued by the Office of Finance.

If you have any questions, please contact Rudy Caluza, Chief Accountant, on 344-7441 or Bruce Martin, Disbursements Supervisor, on 344-7372.

Thank you.

TH:RHC:BM:sw

cc: Leticia Macapinlac, Budget Director  
Lee Dedrick, Acting Finance Director  
Attn: Rudy H. Caluza, Chief Accountant  
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